

EXHIBIT B

A N D R E W K A L O T A Y

A S S O C I A T E S, I N C.

Estimate of Loss to Bond Issuers from Exercise of Survivor's Options

July 17, 2012

Introduction

The United States Attorney's Office of the District of Rhode Island (USARI) has requested Andrew Kalotay Associates (AKA) to estimate losses to corporations that issued bonds containing so-called survivor's options, arising from the exercise of these options by a certain Joseph Caramadre and his associates (JC, et al.).

We have been advised by the USARI that JC, et al. opened joint accounts with terminally ill individuals. When these individuals passed away, JC et al. promptly put the bonds back to the issuing corporations at face value. Consequently, the issuing corporation suffered losses from having to pay full face value for a liability that may have been worth significantly less.

By way of relevant expertise to this engagement, Andrew Kalotay is a leading authority on the valuation of bonds with options. AKA has been providing high-speed, high-accuracy fixed income analytics to major market participants since 1990, and advises two government-sponsored enterprises (GSE) on the issuance of bonds in general including those with survivor's options. Dr. Kalotay's bio is provided for reference as Appendix A.

What is a Survivor's Option?

The survivor's option or estate put, is a feature of many investment-grade bonds. These bonds are aimed at retail investors because the provision allows the estate of a deceased investor to put back the bond at par to the issuer. The survivor's option obviously has no value to institutional investors.

The survivor's option idea has been around for several decades. It goes back to the time when the U.S. Treasury issued Estate Tax Anticipation Bonds. Known colloquially as "flower bonds," they had the novel feature that, regardless of their market value, the IRS would accept them at par if used to pay the estate taxes of a deceased holder. The last flower bonds matured in 1998

Bonds with survivor's option are usually callable — the issuer has the right to redeem the bonds priority to maturity at par. When interest rates decline the value of the bonds increase and the ability to redeem them at par becomes valuable.

On the other hand, when interest rates rise, the value of the bonds decrease. The survivor's option provides insurance to the estate of the holder in that it has the ability to put back the bonds at face value even if they are worth much less.

Determining the Loss to Issuers

The main challenge in estimating the loss to issuers is determining what the values of the bonds were (in terms of their replacement cost) at the time the survivor's options were exercised by JC, et al. These values depend on the issuer's prevailing borrowing cost because that is how the issuer has to raise the funds required to pay off the bond holder. The issuer's borrowing cost is represented by its funding curve (the rates at which it issues bonds for various maturities). The valuation has to take into account other factors, such as the embedded call options and survivor's options, which also depends on the volatility of interest rates.

Without getting into technical details, these inputs together with the terms of the bonds are sufficient to produce a fair value estimate using AKA's patented Survivor's Option Bond Calculator.

Issuer's Funding Curve

Although a sophisticated issuer would know its current funding curve with a high degree of precision, determining historical funding rates as of particular option exercise dates presents some difficulties. In addition, some of the transactions took place when borrowing spreads¹ were quite volatile in the wake of the financial crisis of 2008.

As a substitute, we gleaned the needed spread information from a combination of investment grade and speculative grade spread indexes for the period, provided by Standard & Poors. These spreads were added to Treasury rates prevailing on the transaction dates.

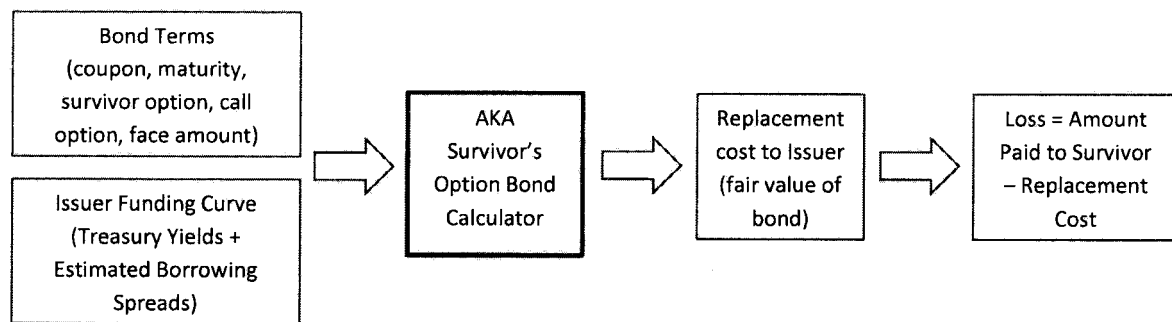
Data Collection and Loss Calculation

The transaction data, transcribed from the brokerage statements of JC et al. into Excel spreadsheets, were provided to us by IRS Agent Troy Niro. From the data, we were able to determine which transactions involved survivor's option puts.

¹ The extra yield over Treasury yields that a borrower would expect to pay, given its creditworthiness, when issuing bonds.

For such cases, we retrieved the associated bond terms from Bloomberg. This was also our source for the Treasury rates prevailing on the dates the bonds were put back to the issuer. We then added spread information extracted from the credit spread indices provided by Standard and Poor's in order to estimate the issuer's funding yield curve on each survivor put transaction date.

The loss calculation process for each transaction can be represented diagrammatically as follows:



Loss Calculation Results

Using the above methodology and data, we estimate that the loss to issuers arising from exercise of survivor's put options by JC et al. amounts to \$12.48 million. Table 1 below breaks down the loss by issuers. Three issuers, General Motors Acceptance Corp, Countrywide Financial, and CIT Group, together account for \$9.84 million of the loss sustained by issuers as a whole.

Table 2 displays the loss to issuers by account holder. Joseph Caramadre and associates are shown as joint account holders.

Table 1: Loss by Issuer

ISSUER NAME	FACE AMOUNT (\$)	LOSS (\$)
GENERAL MOTORS ACCEP CORP	10,857,000	4,760,896.22
COUNTRYWIDE FINANCIAL	8,072,000	2,753,643.36
CIT GROUP INC	7,470,000	2,330,100.04
BEAR STEARNS CO INC	1,289,000	511,070.31
LEHMAN BROTHERS HOLDINGS	1,252,000	329,883.74
AMER GENL FIN	1,534,000	312,191.64
LASALLE BK NA CHICAGO ILL	1,704,000	220,050.04
HANCOCK JOHN LIFE INS	1,357,000	212,871.69
GENWORTH	468,000	197,330.30
BANK OF AMERICA CORP	922,000	193,381.90
STANDARD FED BK NA	1,095,000	115,334.72
PRUDENTIAL FIN	454,000	93,096.19
MARSHALL & ILSLEY CORP	503,000	53,964.40
MERCANTILE BK ORLANDO FLA	154,000	50,531.21
CAROLINA FIRST BK	140,000	48,717.58
CATERPILLAR FINL SVCS CORP	179,000	45,420.94
GENERAL ELEC CAP CORP	198,000	44,340.15
PROTECTIVE LIFE	272,000	34,939.61
HSBC FINANCE CP	210,000	25,593.47
FIRSTBANK PR	57,000	25,089.86
WESTERNBANK PR	111,000	24,124.11
INTL LEASE	250,000	23,740.26
MERRILL LYNCH BK USA	132,000	17,867.77
MBIA INC	34,000	13,375.97
HARTFORD LIFE	210,000	9,710.72
PROVIDIAN NATL BK	26,000	7,594.98
BANK HAPOLIM B M NEW YORK	33,000	5,791.74
COMPASS BK	45,000	5,525.58
TENNESSEE VALLEY AUTH	30,000	4,568.45
FED NATL MTG ASSN	14,000	3,980.33
FEDERAL HOME LN MTG CORP	15,000	3,276.73
PROVIDENT BANK OF CINCINNATI OHIO	10,000	2,245.23
SLM CORP	18,000	1,859.15
Grand Total	39,115,000	12,482,108.36

Table 2: Loss By Account Holder

ACCOUNT HOLDER	JOINT ACCOUNT HOLDER	BROKERAGE	FACE AMT (\$)	LOSS (\$)
BARBEAU, LINDA	CRADDOCK WALTER R	SCHWAB	853,000	134,696.85
BASTIA, THERESA	CARAMADRE JOSEPH A	AMERITRADE	741,000	216,825.57
BATTEY, SHEILA	CARAMADRE JOSEPH A	LIFE MARK	590,000	302,165.20
BENTLEY, KATHLEEN ANN	DISANTO DAVID P	SCHWAB	724,000	142,099.35
BENTO, ARNET J	CARAMADRE JOSEPH A	AMERITRADE	639,000	301,358.57
BORTLE, DONALD T	CARAMADRE JOSEPH A	AMERITRADE	740,000	328,379.50
BRISSON, HELEN B	DISANTO DAVID P	LIFE MARK	982,000	78,497.10
BRUNT, WILLIAM R	CARAMADRE JOSEPH A	LIFE MARK	9,000	3,551.36
BUCKMAN, MAUREEN	CARAMADRE JOSEPH A	ETRADE	244,000	105,696.00
BULPITT, SANDRA A	CONLEY JOHN W	LIFE MARK	912,000	358,089.39
CARNEVALE, ROBERT J	HANRAHAN, EDWARD J	LIFE MARK	1,884,000	374,376.74
CATE, PETER E	CARAMADRE, SUSAN L RICH	LIFE MARK	654,000	223,352.09
CAZEALT, ROBERT A	CARAMADRE JOSEPH A	AMERITRADE	900,000	409,911.81
CULOTTA, ARTHUR G	RADHAKRISHNAN,	FIDELITY	460,000	90,915.25
CUNDY, LEONA D	CARAMADRE JOSEPH A	AMERITRADE	801,000	192,506.11
DAIGLE, ROLAND MJ	DAIGLE, ROLAND M	LIFE MARK	594,000	43,834.38
DECASTRO, ANTONIO J	CRADDOCK WALTER R	AMERITRADE	580,000	273,287.91
DINSMORE, JO-ANN BICCICO	CARAMADRE JOSEPH A	AMERITRADE	696,000	325,326.33
DISARO, PETER	DISARRO LAWRENCE N	LIFE MARK	407,000	84,032.72
DUARTE, DONALD J	CARAMADRE JOSEPH A	LIFE MARK	579,000	55,384.21
EGAN, DENISE P	CARAMADRE JOSEPH A	AMERITRADE	638,000	323,698.81
ESCOBAR, DE RODAS AUGUSTA	CARAMADRE JOSEPH A	AMERITRADE	629,000	256,741.17
FLORI, DENNIS	CARAMADRE JOSEPH A	AMERITRADE	634,000	166,604.00
FRANCO, CATERINA	RADHAKRISHNAN,	TRADE KING	842,000	315,781.47
GEORGE, JOAN	LITNER, MICHAEL	LIFE MARK	765,000	322,958.98
GONSALVES, JOHN	CARAMADRE JOSEPH A	AMERITRADE	650,000	314,073.51
GONZALEZ, SONIA L	CARAMADRE JOSEPH A	AMERITRADE	771,000	224,645.59
HORTON, LUCILLE	CARAMADRE JOSEPH A	AMERITRADE	637,000	277,320.86
IANIERO, LILY	CARAMADRE JOSEPH A	LIFE MARK	745,000	239,787.42
KIMBALL, JAMES	CARAMADRE JOSEPH A	AMERITRADE	452,000	238,918.12
KIVALOS, JOHN H	CARAMADRE JOSEPH A	AMERITRADE	700,000	338,676.07
LANCELOTTI, ANTHONY T	MESOLELLA, STEVE M	LIFE MARK	210,000	56,613.68
LANG, JOHN J	CARAMADRE JOSEPH A	AMERITRADE	432,000	128,567.27
LOGAN, DONNA L	MESOLELLA, VINCENT	LIFE MARK	578,000	137,146.45
MALLANE, MICHAEL A	CRADDOCK WALTER R	AMERITRADE	868,000	366,416.58
MARSHALL, BRUCE E	HANRAHAN CARLENE	SCHWAB	883,000	273,144.33
PERROTTA, DONNA M	CARAMADRE JOSEPH A	AMERITRADE	687,000	297,070.48
PERRY, CHARLES E SR	CARAMADRE JOSEPH A	AMERITRADE	964,000	336,700.43
RAINVILLE, SALLY J	CARAMADRE, PAULA	LIFE MARK	591,000	150,752.59
ROBICHAUD, NORMAND J	CARAMADRE JOSEPH A	LIFE MARK	2,451,000	450,667.77
RODRIGUEZ, EDWIN	CARAMADRE JOSEPH A	AMERITRADE	15,000	118.77
ROGERS, GORDON E	CARAMADRE JOSEPH A	SCHWAB	1,052,000	366,607.41
RUISI, ROBERT G	CARAMADRE, PAULA	LIFE MARK	724,000	90,258.91
SANFORD, ALFRED A	RADHAKRISHNAN,	SCHWAB	678,000	167,771.54
SANTAGATA, PHYLLIS	DISANTO DAVID P	AMERITRADE	752,000	211,509.65
SANTOS, DENISE M	CARAMADRE JOSEPH A	AMERITRADE	898,000	482,972.39
SENECAL, DEBBIE	CARAMADRE JOSEPH A	AMERITRADE	767,000	306,152.76
SGAMBATO, MICHAEL	CARAMADRE, PAULA	SCHWAB	679,000	177,207.54
STROBEL, HATTIE E	CARAMADRE JOSEPH A	AMERITRADE	800,000	252,830.64
STROUP, SHERYL	CRADDOCK WALTER R	AMERITRADE	400,000	113,633.76
TABORELLI, NICHOLAS A	CARAMADRE JOSEPH A	AMERITRADE	1,184,000	363,060.66
TAYLOR, DAVID P	CARAMADRE JOSEPH A	AMERITRADE	697,000	346,362.51
TURGEON, EUGENE R	CRADDOCK WALTER R	AMERITRADE	903,000	255,885.98
WILEY, RICHARD G	CARAMADRE, PAULA	TRADE KING	450,000	87,163.82
Grand Total			39,115,000	12,482,108.36

Table 3: Loss by Brokerage

BROKERAGE	FACE AMT (\$)	LOSS (\$)
AMERITRADE	19,575,000	7,649,555.81
ETRADE	244,000	105,696.00
FIDELITY	460,000	90,915.25
LIFE MARK	12,675,000	2,971,468.98
SCHWAB	4,869,000	1,261,527.03
TRADE KING	1,292,000	402,945.30
Grand Total	39,115,000	12,482,108.36

Appendix 1: Bio of Andrew Kalotay

Andrew J. Kalotay
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New York, NY 10006
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andy@kalotay.com

Andrew Kalotay, Ph.D., is a pioneer and leading authority on the valuation of municipal, agency, and corporate bonds, and a noted expert on the practice of debt management. He is a prolific contributor to the literature on fixed income topics such as bond refunding and the use and misuse of interest rate derivatives.

Dr. Kalotay's innovations include the Ratchet Bond (automatic no-cost refunding feature) and the Volatility Reduction Measure for hedge effectiveness testing. He invented the concept of refunding efficiency—a widely used tool in the management of callable debt. He was inducted into the Fixed Income Analysts Society Hall of Fame in 1997.

In 2009 the Mortgage Bankers Association released Dr. Kalotay's consumer manual for homeowner mortgage decisions. Within the past year he was awarded patents for MBS prepayment modeling, an option-based approach to refinancing home mortgages, and a method for valuing estate puts (survivor's options in retail bonds).

He serves on the MSRB advisory committee that oversees the certification of municipal advisors.

PROFESSIONAL EXPERIENCE

1990-Present *Andrew Kalotay Associates, Inc.*
President
1994-1997 *Polytechnic University*
Director: Center for Finance and Technology
1981-1990 *Salomon Brothers Inc.*
Director-Research, Group Manager: Bond Portfolio Analysis Department
1978-1981 *Dillon Read & Co. Inc.*
Senior Analyst
1972-1978 *AT&T*
Supervisor: Corporate Planning, Financial Planning
1968-1972 *Bell Telephone Laboratories*
Member of Technical Staff: Operations Research, Systems Engineering.

ACADEMIC EXPERIENCE (*Selected*)

Polytechnic University, Professor of management and Director of first M.S. in financial engineering program in the US (1994-1997)

Fordham University, Professor of finance (1990-1994)

Columbia, Adjunct professor of finance (1987)

Wharton, Adjunct professor of finance (1979)

Associate editor and frequent referee for several journals

EDUCATION

University of Toronto, Ph.D. Mathematics. Thesis in Statistical Inference (1968).

Queen's University, M. Sc., Mathematics. Thesis in Algebraic Coding Theory (1966).

Queen's University, B. Sc. (Honors), Mathematics (1964).

MEMBERSHIPS & AFFILIATIONS

American Finance Association

Financial Management Association, Trustee (1989-1994), Board Member (2005-2007)

International Association of Financial Engineers

Fixed Income Analysts Society of New York, President (1988-1989)

AWARDS

Inducted in 1997 into the *Fixed Income Analysts Society Hall of Fame*

Franz Edelman Award for paper on optimum bond calling (1979)

Charter member of Risk Who's Who

OTHER

Chess master (Member of 1966 Canadian Olympic team)

Renowned chess problemist

SELECTED EXPERT WITNESS ENGAGEMENTS

Pueblo of Laguna v. United States

(2011 - present) re: mismanagement of tribal funds

Radian Assurance v. College of Sante Fe, et al.

(2011 – settled) re: dispute about swap insurance

Western Monmouth Utilities Authority vs. Jersey Capital Markets Group, Inc., et al.

(2005) re: negligence in wording of indenture

Witness for municipality

Irvine Water District vs. Merrill Lynch re: Orange County (1998).

Witness for Merrill Lynch

Bondholders vs. Hennepin County (1996) re: Calling of not-yet-refundable bond.

Witness for bondholders.

Commonwealth of Pennsylvania (1996) vs. Prudential Securities, Inc. re: Yield burning.

Witness for Prudential

Commonwealth of Massachusetts (1995) vs. Goldman, Sachs & co. re: Yield burning.

Witness for municipality

Massachusetts Water Resources Authority (1994) vs. Merrill Lynch, et al. re: Yield burning.

Witness for municipality

SELECTED PUBLICATIONS

Municipal Finance

Refereed Journals

What Makes the Muni Yield Curve Rise?

Journal of Fixed Income (Winter 2009)

Callable Bonds: Better Value Than Advertised?

Journal of Applied Corporate Finance (Summer 2008)

Insuring Callable Bonds: Selecting the Right Payment Plan

The Journal of Risk Finance (Spring 2003)

Subsidized Borrowing and the Discount Rate

Municipal Finance Journal (Winter 1999)

The Timing of Advance Refunding of Tax-exempt Municipal Bonds

Municipal Finance Journal (Summer 1998)

Trade Press

What's Special About Muni Swaps? Nothing, Actually

Bond Buyer (February 4, 2011)

Build America Bonds: Seeking the Missing Option

Bond Buyer (May 11, 2009)

The Right Discount Rate Could Save Your Life

Financial Engineering News (January/February 2007)

Bond Valuation

The Management of Sinking Funds: The World Bank Experience — *The Journal of Fixed Income* (June 1993)*

A Model For Valuing Bonds And Embedded Options — *Financial Analysts Journal* (May/June 1993)*

The Valuation and Management of Bonds with Sinking Fund Provisions — *Financial Analysts Journal* (March/April 1992)*

Sinking Fund Prepurchases and the Designation Option — *Financial Management* (Winter 1992)

An Analysis of Original Issue Discount Bonds — *Financial Management* (Autumn 1984)

Innovations in Corporate Finance: Deep Discount Private Placements — *Financial Management* (Spring 1982)

Sinking Funds and the Realized Cost of Debt — *Financial Management* (Spring 1982)

On the Management of Sinking Funds — *Financial Management* (Spring 1981)

Topics in Fixed Income — *Financial Engineering News*

The Right Discount Rate Can Save Your Life (January/February 2007)

When It's Time To Get Off The Tree (November/December 2006)

Is There a Financial Engineer in the House? (March/April 2006)

Some Bonds Are Worth More Dead Than Alive (September/October 2006)

Risk and Liability Management

Refunding Efficiency: A Generalized Approach — *Applied Financial Economic Letters* (Vol. 3, May 2007)*

A Framework for Corporate Treasury Performance Measurement — *Journal of Applied Corporate Finance* (Winter 2005)

Testing Hedge Effectiveness for FAS 133: The Volatility Reduction Measure — *Journal of Applied Corporate Finance* (Winter 2001)*

The Challenge of Managing Credit Spreads: New Tools on the Horizon — *Journal of Applied Corporate Finance* (Winter 2000)*

Subsidized Borrowing and The Discount Rate: The Case of Municipal Capital Budgeting and Financial Management — *Municipal Finance Journal* (Winter 1999)*

Puttable/Callable/Reset Bonds: Inter-market Arbitrage with Unpleasant Side Effects — *Journal of Derivatives* (Summer 1999)*

Ratchet Bonds: Maximum Refunding Efficiency at Minimum Transaction Cost — *Journal of Applied Corporate Finance* (Spring 1999)*

Premium Debt Swaps: The Best of Both Worlds? — *Financial Management* (Autumn 1998)*

The Timing of Advanced Refunding of Tax-Exempt Municipal Bonds — *Municipal Finance Journal* (Summer 1998)*

Refunding Tax-Exempt Corporate Bonds in Advance of the Call — *The Financier* (Vol. 1, No. 1, February 1994)*

How to Succeed in Derivatives Without Really Buying — *Journal of Applied Corporate Finance* (Vol. 6, No. 3, Fall 1993)*

The Sure Thing—Bond Refunding: How Operations Research Made Its Mark on Wall Street — *OR/MS Today* (April 1993)

A Tale of Two Bond Swaps — *Journal of Financial Engineering* (December 1992)*

Embedded Call Options and Refunding Efficiency — *Advances in Futures and Options Research*, JAI Press Inc. (Vol. 3, 1988)*

Refunding Considerations under Rate-Base Regulation — *Financial Management* (Autumn 1984)

Optimum Bond Calling and Refunding — *Interfaces* (November 1979)

Tax Differentials and Callable Bonds — *The Journal of Finance* (September 1979)*

On the Advanced Refunding of Discounted Debt — *Financial Management* (Summer 1978)

A Comment on Bond Refunding — *Financial Management* (Autumn 1976)

Mortgages and Mortgage-Backed Securities

The True Cost of No-Cost Mortgages — *Mortgage Risk* (October 2007)*

Optimal Refinancing: Bringing Professional Discipline to Household Finance — Forthcoming in *Applied Financial Economic Letters* (2007)*

A Pointer on Points — *OR/MS Today* (June 2007)*

An Option-Theoretic Prepayment Model for Mortgages and Mortgage-Backed Securities — *International Journal of Theoretical and Applied Finance* (December 2004)*

The Perils of Monte Carlo — *Derivatives Strategy* (June 1994)

Books and Contributed Chapters

Valuation of Municipal Bonds with Embedded Options — *Handbook of Municipal Securities* (2008)

An Option-Theoretic Approach to MBS Valuation — *The Handbook of Mortgage-Backed Securities*, 6th ed., F. J. Fabozzi, Ed. (McGraw-Hill, 2006)*

Introduction To The Valuation Of Bonds With Embedded Options — *The Handbook of Fixed Income Securities*, 4th ed. et al., F. J. Fabozzi, Ed. (Irwin, Chicago, 1994)*

Managing the Capital Structure — *The Handbook of Modern Finance*, Warren, Gorham & Lamont, Inc. (1989)*

The Financial Manager's Guide to Evaluating Bond Refunding Opportunities (Ballinger, Massachusetts, 1988)*

Long-Term Debt and Equity Markets and Instruments — *The Financial Handbook*, John Wiley & Sons, Inc. (1981)

Operations Research and Statistics

Joint Capacity Expansion Without Rearrangement — *Operational Research Quarterly* (1975)*

Two Comments on the Deterministic Capacity Problem — *Management Science* (May 1974)

Capacity Expansion and Specialization — *Management Science* (1973)

Structural Solution to the Linear Calibration Problem — *Technometrics* (November 1971)

* Co-authored